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DEPARTMENT OF STATE PLEASE PASS TO OPIC AND EX-IM BANK

E.O. 12958: DECL: 2019/10/26
TAGS: EAIR EFIN PREL ECON BR IDB OPIC EXIM
SUBJECT: AMBASSADOR AND MAYOR BARRERA DISCUSS AIRPORT IN FIRST MEETING

REF: 09 QUITO 871; 09 QUITO 817; 09 QUITO 857

CLASSIFIED BY: Chritton, DCM, DOS, Exec; REASON: 1.4(D)

Summary

¶1. (SBU) Summary: The new Mayor of Quito, Augusto Barrera, was eager to discuss the airport renegotiation process in his first meeting with the Ambassador on October 16. After a friendly discussion about potential cultural and education exchange programs, Barrera launched into a detailed and structured review of the state of airport renegotiations. He appeared content with the outcome of the October 14-15 meetings between his office and Quiport (the consortium building the airport), Corpaq (the quasi-public municipal entity that manages the concession) and project lenders OPIC, Ex-Im Bank, the Inter-American Development Bank (IDB), and Export Development Canada (EDC). Barrera said that, as long as the renegotiation process continued, he would be protected from the Constitutional Court's July 23 ruling. (This stems from the Constitutional Court's September 29 ruling, which clarified its earlier ruling and basically allowed the status quo to continue during the renegotiation process.) He expected the lenders to ratify the protocol soon and was focused on bringing the renegotiations to an end in a way that would be successful for all parties. End Summary

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Top Priority: Continuing Airport Construction

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¶2. (SBU) Barrer's priority was that the lenders continue to fund the construction of the new airport throughout the renegotiation process. He commented that since the municipality had not taken control of airport fees from Quiport, the lenders should have the confidence to continue funding new airport construction. Barrera has consistently stated in the media that maintaining construction activities at the new airport, which employs approximately 2,000 people, is a precondition for continuing negotiations. During the

meeting with the Ambassador, he clearly linked the ability of Quiport (and the lenders by extension) to collect airport fees with the lenders' obligation to continue paying for construction.

NOTE: In reality, there is no link between the two in the project contract. End note.

ADDITIONAL ISSUES

¶3. (SBU) Airport Tariffs: Barrera stated that he realized that per the airport concession contract airport tariffs were the property of the consortium (Quiport) and the lenders. However, this obviously conflicted with the Constitutional Court's (CC) July 23 ruling that such fees were public property. Therefore, Barrera said that during the October 15 meeting his office proposed the use of a trust for airport fees. Barrera noted that this issue remains the most problematic in the negotiations. He also pointed out that many airlines had stopped paying airport fees because they were unsure whether to pay Quiport or the government.

NOTE: Barrera's statement about a trust points to a likely sticking point for any renegotiated contract, which is who will control the airport fees. The CC September 29 proclamation gives the Mayor's office the flexibility to keep fees in Quiport's possession during the renegotiation process, but a more permanent arrangement must be found. End note.

¶4. (SBU) Guarantees: Barrera stated that he realized that changing or renegotiating the concession contract would mean changing the protections afforded the lenders by the initial agreement. He acknowledged that the lenders required that their original protections be maintained in any future agreement, and said he would have to look for a way to maintain the lenders' protections in any renegotiated concessions contract.

¶5. (SBU) A Bigger Cut for the City: Barrera said the city needed a bigger share of the airport profits. He explained that under the current concession contract the municipality receives only US$1.5 million a year from Quiport. Barrera noted that when the negotiations started a few months ago the lenders were surprised to learn how little the Municipality received from the concession.

¶6. (C) The New Airport is Not Licensed: Barrera claimed that licensing of the new airport with the Director General of Civil Aviation (DGAC) remained incomplete. He also expressed concern that technical reviews necessary to meet European and North American regulations for flight safety for Boeing and Airbus aircraft still needed to be conducted. The Ambassador offered Embassy assistance in making contact with the appropriate USG agencies, if the various involved parties agreed to pursue this idea further.

NOTE: DGAC licensing has received much press in recent months, with various representatives of the GOE stating that the DGAC has not signed off on the new airport. Barrera admitted to the Ambassador that inspections had been done by the DGAC, but that communications between the DGAC and the municipality had been "bad." The Mayor

added that regardless of the history, the new airport must be DGAC compliant and meet regulations of other relevant authorities like the FAA. Barrera did not indicate who would be responsible for obtaining the required licensing. Quiport President Philippe Baril told Econoff that the new airport building and runway were the property of the municipality and therefore the Mayor would be responsible for the DGAC licensing, but that Quiport would work with the relevant national and international authorities (such as the FAA and ICAO) to meet flight safety and other regulations. End note.

¶7. (C) No Customs nor Air Force Facilities: Barrera complained that the new airport project does not include necessary space for the Ecuadorian Air Force and customs. Construction of these facilities would cost US$18 million. Barrera alleged that Quiport refuses to build these facilities, but the airport cannot function without them and the municipality does not have the money to pay for them.

NOTE: Quiport President Baril told emboffs that the new airport building includes customs counters and some office space, as does the cargo building. According to Baril, GoE Customs is asking for shower rooms and other additional space not included in the contract. Baril also commented that, during the October 14-15

meetings, Barrera had said that construction of the air force facilities would be the responsibility of the central government. End note.

¶8. (SBU) Access Roads Will Take 2.5 Years: Barrera told the Ambassador that the existing airport road takes 40 minutes, without traffic, to reach the airport. He said that the two options for the necessary access road, both of which he would support, are: a 13 km direct airport access road originating from northern Quito (and funded by the Andean Development Corporation (CAF)) , or an alternative 16 km road. Both are in the tender stages. Barrera said either option would take about 2.5 years to build. Challenges include the lack of access roads from Quito suburbs Tumbaco and Cumbaya, and technically difficult bridges.

NOTE: In a subsequent radio interview Barrera said the new roads would be finished in two years. Contacts at the Canadian Embassy have estimated 30 to 32 months to complete the CAF-funded access road. End note.

¶9. (SBU) The Airport is eight months Behind Schedule: Barrera told the Ambassador that the new airport construction was now eight months behind schedule, inferring that the delay in finishing the airport would decrease the gap between a finished airport and roads to reach it. Barrera explained that the lenders had not disbursed on the May/June or June/July invoices for construction costs (totaling about US$30 million). He argued that this failure to disburse was unfair and not a result of the CC's July 23 ruling, since this happened after the fact.

NOTE: Per the lenders' Investment Protection Agreement with the GOE, the July 23 CC ruling constituted a "political act" allowing the lenders to stop the disbursement of construction funds for the new airport. Econoffs understand that the lenders have not released funds for July, August and September construction invoices. However, the project's guarantor, the Canadian Commercial Corporation (CCC) and Quiport construction companies remained responsible for continuing construction activities for 60 days plus a 30 day closing down period after the last disbursement of construction funds by the lenders. After the July 23 CC ruling, the

lenders exercised control over all funds and made payments as necessary to continue current airport operations. End note.

Comment

¶10. (SBU) Barrera came across as very well-informed and clear-thinking on the airport issue. He did not make any incendiary comments or play the blame-game, and seemed intent on sending the message that he was in control of his side of the negotiations, was eager to find a mutually acceptable solution that is a win-win for both sides, understood the lenders' concerns and priorities, and was investing all his "political capital" and reputation in reaching an agreement that gets the airport built under the current (albeit modified) contractual arrangement. He has equally moderated his public comments, so as not to antagonize his negotiating partners. He seemed fully open to collaborating with the USG and Embassy. Whether Barrera can deliver on the key issue of ensuring the appropriate guarantees for the lenders is still an open question, but he seems committed to the successful conclusion of this process, and he has a lot to lose politically if it falls apart.
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